Matthijs Verweij (left) from KAS BANK taking part in a live debate hosted by Mallowstreet.

ESG issues rising up the pension fund agenda

Over the last year we have seen increasing interest from pension funds in the UK around how incorporating ESG factors into their investment philosophy can have a positive impact on the scheme and its beneficiaries. Since headlines have hit the press, such as the widely discussed "Wonga" incident last year, there have been increasing calls from members, the public and trustees to understand what pension funds are actually invested in. Could this be something the regulator can help to drive forward?

Reputational risk is one aspect that drives a need to know the impact of your investments; however it goes further than this. At a recent UK Sustainable Investment & Finance Association (UKSIF) event we saw representatives of some of the largest pension funds in the UK explain the work they have been doing to get clearer reporting from their managers on their activity in the ESG space. The question being –- How is long term value affected by ESG factors?

Asset Owners look for guidance

In January this year Matthijs Verweij from KAS BANK took part in a live debate hosted by Mallowstreet which examined "Responsible Investment – Is green the new black?" On the panel were also Catherine Howarth from ShareAction, an organisation that promotes responsible asset ownership, and Peter Michaelis from Alliance Trust, a market leader in Sustainable and Responsible Investment.

It is clear from the discussion that the industry still needs to do much more to support pension funds in understanding the art of the possible when it comes to incorporating ESG factors into their investment philosophy. We know from our experience in the UK and the Netherlands that ESG is not simply about exclusion but about awareness. A transparent approach to helping pension funds understand what they are already invested in, and the potential ESG factors that affect them, is a foundation stone that should be put in place. Ongoing independent ESG screening can act as a starting point for a constructive conversation between pension funds and their asset managers to work together to enact your investment beliefs on behalf of scheme members.

Active stewardship

A large step forward has been made recently by the Association of Member Nominate Trustees. On 10th March 2015 at UKSIF's event to mark Ownership Day, Janice Turner and Bill Trythall from the AMNT launched their "Red Lines" initiative. The purpose of Red Lines is to provide pension funds with a list of standardised voting instructions, based on ESG factors, which they can instruct their asset managers to act on. The purpose is to give *all* pension funds, not just the largest, a more active stewardship role in the companies they invest in. The initiative is being broadly welcomed by the industry and we are proud to say that KAS BANK is working with the AMNT to help guide the development of these Red Lines based upon the wide range of ESG factors and our expertise in this area.

Whilst the mainstream integration of ESG factors into the investment philosophy of UK pension funds is still in early days it is clear to us that the industry is starting to put some real clout behind innovation in this area. If you want to discuss how we can help you gain greater transparency around your investments, and how ESG factors may be at play within them, you can contact Matthijs Verweij or Steven Polese in our London office.

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